State Profile

Winter 2004

Vermont

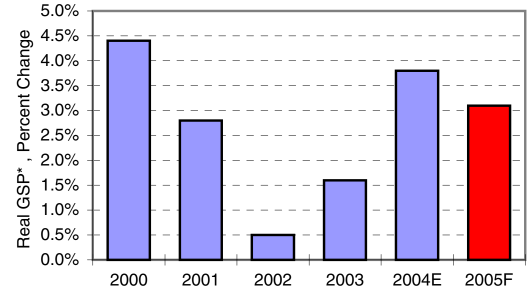
National real gross domestic product (GDP) is forecasted to moderate in 2005.

- National real GDP during 2004 is currently forecasted by Economy.com to grow about 4.0 percent when measured from fourth quarter 2003 to fourth quarter 2004. This would be slightly below the 4.4 percent growth posted for 2003, but well ahead of the 2.3 percent growth in 2002 and the 0.2 percent growth experienced during the recession year of 2001.
- Consensus forecasts project 2005 real GDP growth to moderate to about 3.0 percent when measured on this basis

Vermont, along with other states in New England, benefited from growth in the national economy during 2004. The 2005 forecast expects growth to moderate.

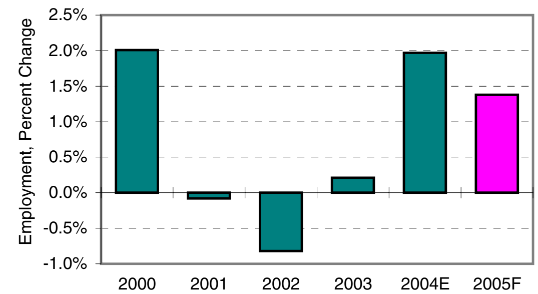
- Growth in gross state product for Vermont is estimated to moderate at or near the 3.0 percent level, down from nearly 4.0 percent in 2004, according to a regional growth forecast prepared by the New England Economic Partnership (See Chart 1). The 2005 forecast is, however, a vast improvement over the 2002 level of 0.5%.
- Payroll employment growth will also likely moderate in 2005, though much improved over 2002 levels (See Chart 2). Employment growth has lagged the turnaround in output, as it generally does, because businesses are reluctant to hire during the initial phases of an economic recovery. Both labor demand and the rate of employment growth should improve.
- Due to large capital investment requirements of many key industries in New England the lag in job growth has been more pronounced here. In addition, slow labor force growth and relatively high costs of doing business have also contributed to a more muted employment growth relative to the national average.
- In Vermont, manufacturing is expected to stabilize this year and grow next, providing some lift to the economy. More substantial gains are expected in education and health care services and in professional and business services.

Chart 1: Vermont's Real Output is Expected to Show Continued Strength



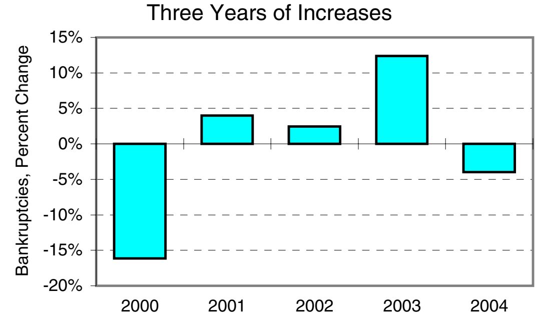
* Gross State Product, Q4 to Q4
Source: New England Economic Partnership and Economy.com

Chart 2: After Three Weak Years, Vermont's Payroll Employment is Growing Steadily



Source: New England Economic Partnership and Economy.com (Q4 to Q4 data)

Chart 3: Bankruptcy Filings Declined in 2004, After Three Years of Increases



Source: New England Economic Partnership (Q2 to Q2 data)

Better economic times in Vermont imply fewer bankruptcies.

- The lack of payroll growth during the years 2001-2002 and weak growth in 2003 contributed to the rise in bankruptcies through 2003 (See Chart 3).

- The strengthening in payroll employment growth this year and expectations for next year suggest bankruptcies are likely to decline in the future. The small decline in bankruptcies observed during the four quarters ending in second quarter 2004 may well foreshadow a drop-off in bankruptcies during 2004 and through 2005.

Vermont's small institutions report a profit as net interest margins (NIMs) remain pressured from high concentrations of mortgage loans.

- Vermont's small insured institutions (assets less than $1 billion) reported a modest but continued decline in the median return on assets (ROA) of 0.89 percent as of September 30, 2004. Well below the national median for similar types of institutions, Vermont's ROA declined in 2004 as NIM compression continued from low asset yields associated with high concentrations of single family mortgage loans and the inability to reduce funding costs (See Chart 4).

- Residential mortgage loans account for 50 percent of total loans in Vermont's small institutions compared to 32 percent of total loans in the small institutions nationwide. As interest rates dropped in the past several years, borrowers refinanced into lower fixed-rate loans. Prepayment speeds on these lower-yielding loans will likely slow as interest rates rise and will likely pressure profitability for many small Vermont institutions as funding costs rise also.

The number of banking offices is increasing in Vermont.

- Insured banking institutions operated 273 offices in Vermont as of June 30, 2004. The number of banking offices has been increasing since 2002, reversing the trend of shrinking the number of banking offices in the state attributable to industry consolidation in the late 1990s (See Chart 5).

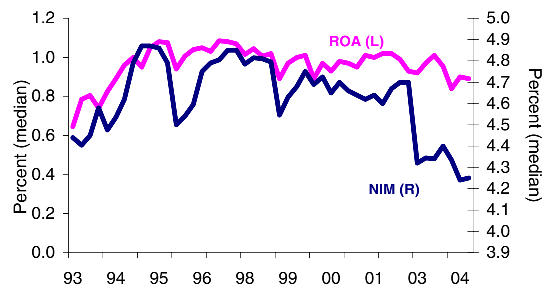
- Out-of-state institutions controlled 35 percent of total deposits in Vermont as of June 30, 2004. Prior to 1996, virtually no out-of-state institution maintained banking offices in the state.

Loan growth picks up in Vermont as insured institutions expand commercial loan portfolios.

- Vermont's insured institutions experienced an increase in loan growth in the third quarter of 2004 following slower loan growth earlier in the year. The median growth rate for total loans was eight percent as of September 30, 2004. Commercial and industrial (C&I) loan growth remained strong with a median growth rate of 12 percent as of September 30, 2004, while commercial real estate (CRE) loan growth slowed to a median growth rate of 8 percent after robust growth earlier in the year (See Chart 6).

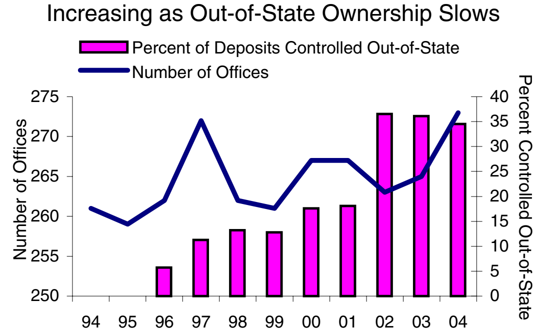
- Despite the low interest rate environment, growth of single family residential mortgage loans continued to slow through the third quarter to a median growth rate of almost three percent. Construction loan demand remained healthy through the third quarter.

Chart 4: Vermont's Small Institutions Maintain Earnings Despite Continued Pressure on Margins



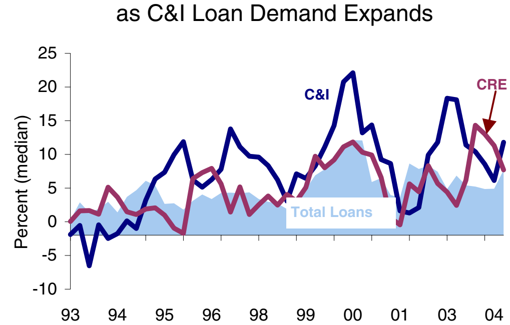
Note: Data as of September 30, 2004. Institutions with assets less than $1 billion. Source: FDIC

Chart 5: The Number of Banking Offices Is Increasing as Out-of-State Ownership Slows



Note: Data as of June 30th.
Source: FDIC

Chart 6: Loan Growth Increases in Vermont as C&I Loan Demand Expands



Note: Data as of September 30, 2004.
Source: FDIC

Vermont at a Glance

General Information	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Institutions (#)	19	19	20	23	23
Total Assets (in thousands)	7,767,092	7,338,177	7,233,971	8,828,557	8,621,037
New Institutions (# < 3 years)	0	0	0	0	0
New Institutions (# < 9 years)	0	0	0	0	0

Capital	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Tier 1 Leverage (median)	8.78	8.69	9.19	8.90	8.61

Asset Quality	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Past-Due and Nonaccrual (median %)	1.32%	1.69%	1.91%	2.04%	2.19%
Past-Due and Nonaccrual >= 5%	0	0	0	0	0
ALLL/Total Loans (median %)	1.19%	1.25%	1.25%	1.31%	1.43%
ALLL/Noncurrent Loans (median multiple)	2.16	1.68	1.80	1.52	1.81
Net Loan Losses/Loans (aggregate)	0.08%	0.15%	0.14%	0.28%	0.20%

Earnings (Year-to-Date Annualized)	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Unprofitable Institutions (#)	0	1	0	1	0
Percent Unprofitable	0.00%	5.26%	0.00%	4.35%	0.00%
Return on Assets (median %)	0.97	1.04	1.02	1.02	0.96
25th Percentile	0.70	0.76	0.82	0.90	0.81
Net Interest Margin (median %)	4.29%	4.29%	4.70%	4.62%	4.62%
Yield on Earning Assets (median)	5.47%	5.75%	6.90%	8.01%	8.28%
Cost of Funding Earning Assets (median)	1.00%	1.46%	2.24%	3.40%	3.69%
Provisions to Avg. Assets (median)	0.08%	0.11%	0.13%	0.13%	0.18%
Noninterest Income to Avg. Assets (median)	0.73%	0.90%	0.72%	0.60%	0.60%
Overhead to Avg. Assets (median)	3.46%	3.55%	3.50%	3.41%	3.35%

Liquidity/Sensitivity	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Loans to Deposits (median %)	80.76%	80.01%	83.74%	84.26%	83.66%
Loans to Assets (median %)	67.63%	69.17%	71.34%	70.15%	69.36%
Brokered Deposits (# of Institutions)	5	1	0	0	1
Bro. Deps./Assets (median for above inst.)	0.53%	0.07%	na	na	1.88%
Noncore Funding to Assets (median)	11.23%	10.16%	10.92%	12.14%	12.08%
Core Funding to Assets (median)	79.59%	78.94%	78.88%	77.74%	77.82%

Bank Class	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
State Nonmember	6	6	7	7	7
National	8	8	8	11	11
State Member	0	0	0	0	0
S&L	1	1	1	1	1
Savings Bank	1	1	1	1	1
Stock and Mutual SB	3	3	3	3	3

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	16	3,431,158	84.21%	44.18%
Burlington VT	3	4,335,934	15.79%	55.82%